HIV/AIDS & Economic Strengthening via Microfinance

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1) HIV/AIDS INCREASES HOUSEHOLDS' VULNERABILITY TO POVERTY

Experience from Displaced Children and Orphans Fund (DCOF) projects in other countries (notably Malawi and Zambia) has shed light on how HIV/AIDS can exacerbate household vulnerability to poverty. This table provides a description of varying degrees of vulnerability.

MOST vulnerable	***Vulnerable***	***SOMEWHAT vulnerable***
♦ single parent (usually women who have been widowed) headed households caring for several children where the primary adult caregiver falls ill on a regular basis ♦ children-headed households ♦ elderly grandparent-headed households caring for their orphaned grandchildren	♦ adolescent-headed households ♦ households headed by both parents, but where one of them is ill and in need of continuos care ♦ households where one caregiver has died and the family is in the process of reorganizing itself (particularly where the husband has died; the transition period either could be very brief or it could be the advent of desperate times) ♦ single women-headed households who have several children already, but take in more who are orphaned (the degree of vulnerability varies depending on the household resources that exist when the children join it)	♦ households caring for extended family members who are ill ♦ households where no one in the immediate family is ill but who have taken in several orphans (again, the degree of vulnerability varies depending on the household resources that exist when the children join it)

Source: Williamson, John and Jill Donahue[1].

Vulnerability tends to revolve around the illness, death and productive capacity (food or income) of primary care giving adults in a household. Households that fall in "vulnerable" and "somewhat vulnerable" categories above are usually able to continue their income and food production roles. Typically, the level of activity is reduced in response to added burdens of caring for ill family members and/or additional children[2]. Examples of how households respond to impacts of HIV/AIDS:

- à less labor intensive types of crops are grown (i.e.; corn is substituted with cassava)
- à food consumption is reduced; (i.e.; meat eating and number of meals)
- à taking care of non-emergency health needs is postponed
- à children are taken out of school to reduce costs and to contribute to household labor pool
- à households may switch to less risky types of businesses or reduce the volume of their income generating activities.
- à as a crisis situation deepens, savings are liquidated, extended family and kinship ties are called on and household assets are sold off.

[1] Williamson, John and Jill Donahue, "Community Mobilization to Address the Impacts of AIDS: A Review of the COPE II Program in Malawi, January 17-30, 1998", prepared by the Displaced Children and Orphans Fund and War Victims Fund Project for USAID, June 1998.
[2] Children are usually expected to contribute to the household labor pool.

Some of these responses are reversible and have only temporary consequences on the well being of the household. Other responses are less easily reversed. Households become especially vulnerable when productive assets like land, farming equipment, and draft animals used in crop production are sold off. These types of responses are difficult to reverse and seriously undermine the ability of the family to provide for themselves in the future.

In some cases, a household may try to build up its activities as opposed to reducing them, especially when its productive members are healthy. A good example is when a healthy family is faced with absorbing more children. The response of some households in this situation is to diversify and intensify economic activities to absorb the added burden of more children.

2) STRENGTHENING HOUSEHOLD INCOMES THROUGH MICROFINANCE INSTITUTIONS

Whether families can cope with the impact of HIV/AIDS[3] depends a great deal on the state of the households' economic resources before, during and after the disease affects them. In fact, for most households, issues related to poverty and eroding economic resources subsume the other effects of HIV/AIDS—illness doesn't cause poverty, but it worsens its legacy.

Income generating activities or microenterprises are important means by which households can build and protect such resources. Research[4] has shown that it is a long-standing coping strategy that many families employ to respond to crises and times of economic stress, whatever the cause. Understanding how families make decisions about their household economy, especially during times of crisis, can lead to insights on ways to reinforce household economic security and, by extension, mitigate the impact of AIDS upon it. An essential element affecting these decisions is the family's perceptions of, and attitudes toward, their risk environment. Households manage their internal economies by developing strategies to (a) *reduce risk* by lessening their exposure to it, and (b) *manage loss* by mitigating negative consequences.

Risk reduction strategies include:

- Choosing income-generating activities that carry few risks, and earn modest, but steady, returns.
- Diversifying household crop and income production activities. For example, wage-earning labor, starting one or more microenterprises and cultivating subsistence and cash crops.
- Building up savings, either cash or in-kind assets (livestock or jewelry) as a type of insurance that households can draw on in case of a loss. Preserving extended family and community ties also allows for risk and resource sharing.

During times of crises, households employ a predictable set of *loss management* techniques, to alleviate the disaster's worst effects on the family's well being. These techniques fall into three stages. *Stage one* strategies are reversible, and have little to no impact on the

[3] Adequately caring for children in the household, absorbing orphaned children, shouldering the medical (and psychological) expenses of a family member with AIDS, participating in community efforts to address the impact of AIDS on the community are examples of "coping with the impact of HIV/AIDS".

[4] The following information on risk reduction and loss management is taken from "Household Economic Portfolios" by Chen and Dunn for USAID's AIMS (Assessing the Impact of Microfinance Services) project.

household's future income earning or production capacity. *Stage two* approaches are difficult to reverse because they involve the sale of productive assets, undermining future household capacity to generate income and produce food. *Stage three* indicates the destitution of the household where few, if any, coping mechanisms remain available.

A family's ability to avoid stage two and three depends on the resiliency of its stage one strategies. Stage one, in turn, depends on the successful outcomes of risk reduction activities. In addition, the relative "health" of a family's resource base determines if they can help their community or extended family members at all.

Loss Management at Household Level

Stages of Loss Management	Strategies
I. Reversible mechanisms and disposal of self-insurance assets	¨ Seeking wage labor or migrating to find paid work ¨ Switching to producing low maintenance subsistence crops ¨ Liquidating savings accounts, selling jewelry, chickens, goats ¨ Calling on extended family or community obligations ¨ Borrowing from formal or informal sources of credit ¨ Reducing consumption and decreasing spending (education, health).
II. Disposal of Productive Assets	¨ Selling land, equipment, tools or animals used for farming ¨ Borrowing at exorbitant interest rates ¨ Further reduction in consumption, education, health ¨ Reducing amount of land farmed and types of crops produced
III. Destitution	¨ Dependence on charity ¨ Break-up of household ¨ Distress migration

Source: "Household Economic Portfolios" by Chen and Dunn for USAID's AIMS project

Microfinance programs are one of the few interventions that have shown potential for increasing poor households' incomes in a cost-effective manner. Evaluations of impact at the enterprise level show that, among other things, access to credit enables businesses to survive crises. At the household level, evaluations point to income and asset accumulation. One could infer that access to credit and savings mitigates HIV/AIDS by:

- à Maintaining or increasing small but steady income flows to poor households
- à Providing opportunities to acquire savings that are secure, easy to liquidate quickly and retain their value
- à Reducing vulnerability to loss by increasing coping mechanisms
- à Enabling affected households to avoid irreversible coping strategies that destroy future income earning and productive capacity.

These are very important elements in lessening the AIDS epidemic's impact on families and communities. While access to credit may not be beneficial for those whose immediate survival is at stake, it may play a role in helping households get ahead of the disease before the worst consequences arrive. This is especially crucial for households that are already vulnerable to poverty.

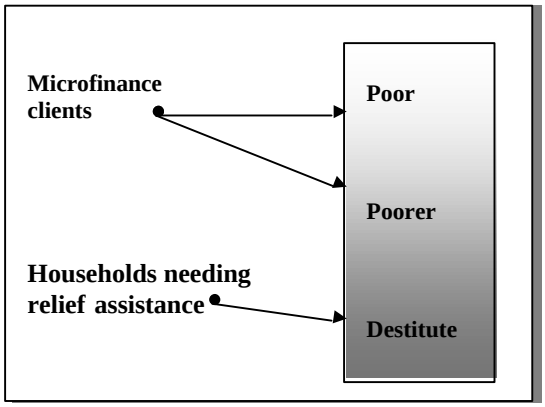
The following examples describe how access to microfinance has helped some households cushion themselves from the impact of HIV/AIDS.

One woman in Malawi who sold fried donuts received a loan from a Save the Children microcredit project[5]. The loan allowed her to move into the more lucrative business of fish trading and, with the increased revenue, built up a bit of savings. However, her sister became ill and she had to take care of her. So, she went back to donut selling and used her savings to make ends meet. When her sister passed away, she was still able to go back to petty fish trading.

Several members of a CARE microfinance project (PULSE) in Zambia said they joined a credit group so that they could increase their business volume or diversify their activities. They wanted to do so because someone had died or was seriously ill in their extended family and had left, or would leave, children behind. They knew that they were expected to take care of children orphaned (or about to be orphaned) because they had a business activity. They also knew they needed to prepare themselves so they could absorb this new burden.

Microfinance services should not be seen as an intervention that is going to pull destitute households out of poverty—particularly in communities seriously affected by AIDS. Nonetheless, in poor households with the capacity to carry out small income generating activities, it can help smooth out the income flow, increase food security and help cover school and health expenses.

One final aspect of strengthening household economic resources relates to the role that community members play in creating an informal safety net for those in crisis. The economic stress caused by HIV/AIDS can become so severe that engaging or continuing income-generating activities is not an option. At this point, the community's safety net role becomes critical. Friends and extended family members, neighbors and spontaneous community self-help groups often provide relief[6] at crucial times. Formal mobilization programs strengthen these informal safety nets and serve to systematize spontaneous community efforts so they can be sustained. Yet, if too many families are unable to support themselves, such community safety nets can rapidly be overwhelmed, with fewer people within the community able to share their resources just when demand for such resources increases. Therefore, minimizing the number of families in need of relief increases the chances that the community can maintain a safety net for its most vulnerable members[7].



[5] GGLS or Group Guaranteed Lending and Savings. This was a component of a community mobilization project (COPE) that DCOF funded in Malawi through Save the Children.

[6] Examples of the relief provided include moral support, food, clothes, money for medicine, help with child care or household chores and linking a family in crisis with resources or services provided by government or non-government organizations.

[7] The following section is taken from Donahue, Jill "Community Mobilization and Microfinance Services as HIV/AIDS Mitigation Tools". Prepared as an appendix to Williamson, Sussman, Hunter and Donahue, "Assessment of HIV/AIDS Orphans *a*nd Vulnerable Children in Kenya". March 1999.

3) REACHING FAMILIES AND COMMUNITIES AFFECTED BY HIV/AIDS VIA MICROFINANCE

Targeting population groups — Where microfinance programs have become sustainable, they have done so by adhering closely to proven best practices. They do work in communities seriously affected by AIDS, but they do not work when an organization tries to target loans to groups that it selects to meet project goals. For example an HIV/AIDS project where each individual is from a household affected by AIDS, is a PLWA, or a commercial sex worker. These types of groupings may work to achieve moral support, to carry out social development activities, to disseminate HIV/AIDS prevention messages and to confront stigma issues. However, these groups are not good credit risks and generally aren't set up to promote income-generating activities. Engineering the composition of a group can undermine solidarity and mutual confidence. It also concentrates too much risk of business failure within a single group. In an HIV/AIDS context explicit targeting to those with AIDS has increased stigma and has negative outcomes. An example is WOFAK[8], whose members originally came together to help one another cope with their HIV+ status. They decided to try raising and selling vegetables to secure a source of income, only to discover that no one would buy their vegetables because of the stigma associated with HIV/AIDS.

The fact that some group members are affected by HIV/AIDS and others are not spreads the risk of business failure and inability to repay. This enhances the groups' capacity to find their own solutions to these challenges. Access to financial services is highly valued among micro-entrepreneurs. It is in the interests of all the members to assist those among them who are having problems. If one person fails to repay and the group doesn't find a solution, no one in the group will be eligible for future loans and their savings may have to cover the default.

Nevertheless, a cross section of any self-selected solidarity group would probably reflect the HIV prevalence in the general population. It would also likely show that members are caring for orphans, are widowed, single heads of household, or supporting someone in their family who is suffering from AIDS and related illnesses. For example, the FINCA village-banking program in Uganda reports that 75% of its clients are women caring for orphans. In addition, loans offered by microcredit programs are deliberately small to attract the poorest households, who typically already engage in the types of income generating activities most likely to benefit from infusions of small amounts of working capital. This is significant because the poorest households are also the most vulnerable to poverty and less able to prepare to withstand the impact of HIV/AIDS in their household.

It is therefore possible to reach a good portion of an HIV/AIDS affected population through the standard microfinance self-selection practice without explicit targeting. After all, it is not the **act** of targeting that is important, it is being able to **reach and assist** the target population that is the ultimate goal.

[8] Women Fighting against AIDS in Kenya.

4) LINKING MICROFINANCE AND COMMUNITY MOBILIZATION ACTIVITIES

Operationally separate but conceptually joined[9] — Supporting income generation is important, but HIV/AIDS project implementers do not have the best background for this. Mobilizing communities to respond to the impacts of HIV/AIDS is also crucial, but this is not the aim of microfinance. Attempting to design and manage a community mobilization initiative **and** deliver microfinance services according to state-of–the-art principles is probably beyond the capacities of most organizations. Similarly, it would be difficult, at best, for an organization whose purpose is to make social welfare or health service interventions to manage a sustainable microfinance program effectively. The clash of objectives at the community level of a compassionate response to those in need and loan collection are difficult to manage within a single program.

Thus initiating operationally separate but overlapping projects (HIV/AIDS projects and microfinance) would allow each to do what it does best, but still benefit from the other's activities. Operationally separate programs would need to coordinate effectively and find ways to reinforce each other's effectiveness. The following are offered are possible areas through which two organizations might operationalize conceptually joined approaches:

a) *Defining the desired clients:* Microfinance services should be available to all households in a community who meet the criteria for participation as set out by the microfinance institution. The criteria should not focus solely on whether a household is dealing with the impacts of HIV/AIDS; it should instead seek to attract those who are not yet destitute but still vulnerable to poverty. Microfinance institutions do this by deliberately offering small loans that are not attractive to the relatively well off.

b) *Defining the desired impact:* For HIV/AIDS–affected communities, the desired impact is to reduce household exposure to economic risk and improving ability to cope once a loss has occurred. The intent is to increase poor households' income-earning and investment capacities, as opposed to promoting business growth or job creation. Improving income generation should result in increased ability to care for orphans and for chronically ill family members. Other worthwhile outcomes would be improvements in food security and children's school attendance.

c) *Developing new credit or savings products.* New savings or credit products must emerge from client demand. Funds from HIV/AIDS or social welfare organizations could finance the research and development of new credit or savings products that would be especially attractive to clients who are living in families affected by HIV/AIDS. Special attention should be devoted to savings schemes for coverage of health, medical and educational costs and/or life and health insurance. Examples of products:

- à **Saving schemes for medical expenses and/or school fees**—Mobilize client savings and deposit the pooled amount in an interest bearing account, i.e., Treasury bills. Investigating how those involved in decentralizing health care delivery systems deal with pre-payment of medical expenses (à la Bamako Initiative) could yield ideas or collaboration also. The NGO arm of Kenya Rural Enterprise Promotion (K-REP) has already begun formal research in this and the following area.

[9] The following section is taken from Donahue, Sussman, "Building a Multi-Sectoral Response—Collaboration between Community and Microenterprise to Mitigate HIV/AIDS Impact", Nairobi, Kenya. November 8th to 19th 1999

- à **Insurance (life and health)**—The approach for insurance is essentially the same as for the above savings schemes, except that pooled deposits would be made in an insurance company, rather than in an interest bearing account.
- à **Smaller loans for shorter terms**—when a client is caring for an ill family member or becomes ill themselves, they often have to curtail their business activity. Often, the minimum loan size is too large a debt for the household to absorb. Some solidarity groups in other countries have resolved this by allowing the client to take a smaller loan until s/he is back on track.

d) *Develop methodological innovation:* Observing what solidarity groups already do that mitigate the economic impacts of HIV/AIDS on their members, and at the same time mitigate the risk that HIV/AIDS poses to the MFI would be of great interest to both organizations. For example, in situations where a member becomes ill, has to care for an ill family member or has absorbed orphaned children—especially if she heads a single-parent household—some solidarity groups decide to:

- à Run the solidarity group member's business when she is too ill or overwhelmed with her patient's needs
- à Advise the member to delegate someone within her family or household to learn the business from her and run it when she isn't able to do so. If the business survives, the designated family member could continue as a solidarity group member. If the ill member is the head of her household, the survival of a future source of revenue is **extremely** crucial to the welfare of the rest of the household (the children in particular).
- à Raise money to cover the loan so the ill member doesn't have to liquidate her savings to repay
- à Allow the member to take out a smaller loan if she has to reduce her business activity because of her own or a family members' illness
- à Assist with household and child care chores so the member can attend to her business

e) *Determining how to monitor and evaluate the impact of these programs:* Most microfinance programs do not measure impact at the household level, because doing so would add enormous costs and jeopardize future sustainability. Clients' willingness to pay for financial services is considered proof that the program has a favorable impact on them. However, for the purposes of improving AIDS impact mitigation, it is important to gauge the effect microfinance services have on household economies.

One possible solution may lie in a cost-sharing arrangement between HIV/AIDS project implementers and microfinance institutions to hire a liaison agent. Such a person could effectuate the linkage between HIV/AIDS project implementers and the microfinance institution. The two parties would need to negotiate who would hire and supervise the agent, but an illustrative list of duties follows:

- à Track microfinance client information. How many clients are:
  - ✓ Caring for orphans?
  - ✓ Single-headed household (woman, grandparent, adolescent)?
  - ✓ Caring for chronically ill family (or extended family) member?
  - ✓ Suffering from chronic illness?
  - ✓ Involvement in Pathfinder or other community mobilization activities?

- à Interview drop out clients to determine reasons for leaving the program
- à Identify when solidarity group members are facing legitimate household difficulties stemming from coping with the impact of HIV/AIDS that could be the precursor to repayment problems
- à Document methods that solidarity groups use to mitigate impact of HIV/AIDS on their members and by extension the risk this poses to the microfinance institution
- à Participate in market research of client demand for various types of new savings or credit products

Management should also brief field staff about the geographical overlap. Staff should contribute their ideas on how the two programs could collaborate in mutually beneficial ways. Such initiatives should not be one-sided. The synergy of having a collaborative effort must be in the interests of both organizations.

THE AUTHOR WELCOMES AND IS EAGER TO RECEIVE COMMENTS.
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